



Rosalind M. Hewsenian
Managing Director

January 25, 2006

Ms. Anne Stausboll
Interim Chief Investment Officer
California Public Employees' Retirement System
400 Q Street
Sacramento, CA 95814

Re: International Fixed Income RFP

Dear Anne,

You had requested Wilshire's opinion with respect to Staff's recommendation regarding releasing a RFP for a Spring Fed Pool for international fixed income managers. Wilshire concurs with Staff's recommendations.

Discussion

CalPERS was one of the first institutional investors to start investing in international fixed income in 1989 to provide additional diversification in the total investment portfolio. The international fixed income program has produced good performance relative to its benchmark and provided diversification for the overall investment program, evidenced by its strong performance during periods of down equity markets and weak domestic fixed income markets.

The universe of institutional quality active international fixed income managers, although still small compared to other assets classes, has grown in recent years. There are a number of quality managers in the marketplace that currently do not manage money for CalPERS. The addition of new managers can improve risk adjusted excess return. Also, the Spring Fed Pool concept will permit Staff to act expeditiously in replacing managers that do not meet expectations. Lastly, the Spring Fed Pool allows Staff to build strategic relationships with more managers, even if they are not managing money for CalPERS. This type of collaboration has helped Staff in managing investments internally.

We would strongly recommend that the evaluations of the manager candidates for the Spring Fed Pool be placed in closed session so that the Investment Committee can receive frank evaluations without fear that it will be picked up by the press. Managers may be less likely to bid for CalPERS' business if they know that a Wilshire or Staff evaluation will end up in the press. Thus the pool of candidates will be less robust even before the process to hire managers even begins. The vote on the hiring of managers could continue to take place in open session.

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Conclusion

Wilshire supports Staff's recommendation to pursue additional managers in the international fixed income program. The objective of populating a Spring Fed Pool is to ensure that there are a sufficient number of managers to create an investment structure optimized to produce maximum risk adjusted excess return. The marketplace now offers more firms with institutional quality international fixed income products and the asset class should continue to be a good diversifier of other asset classes.

Should you require anything further or have any questions, please do not hesitate to contact me.

Sincerely,

Handwritten signature of R. M. Hensenian in cursive script.